

The MORTGAGE BANKER

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What Should Originating Costs Be for Title VI Loans?

*If this question has been puzzling
you, the author can start you on the
right trail for getting the answer*

By THOMAS E. COLLETON

IN considering originating costs of Title VI loans, I think the matter of fees is of secondary importance to several other things to which we should give thought and consideration.

For example, we ought to think about business volume. Is there going to be as much business this year as last year, or will there be more or less? What do builders think? Are they willing to continue building and run the risks they face today, or are many of them going out of business? They are not particularly disturbed by the rising prices of labor and materials for they can contend with these as they have in the past. They are very much concerned, however, with the additional hazards they face, such as priorities, defense areas, shelter rentals, changing FHA regulations—Title II yesterday, Title VI today, Title VII perhaps tomorrow—government competition across the street, prevailing wages, profits perhaps almost wiped out by income taxes, etc., etc., etc.

Yes, we're definitely concerned with what the builder thinks about all this and what he's going to do. It's pertinent

here, too, because if you don't get any business you needn't worry about fees.

FHA is certainly concerned about volume. Those promotion crews aren't

THIS is the sort of article that can—and often does—open up further discussion of what others think about the subject at hand. Mr. Colleton analyzes the matter as he sees it and then leaves it for someone else to pick up from there. We shall be glad to hear from those who want to pick it up—or go back to the beginning and carry the ball clear down the field if they prefer. Mr. Colleton is president of the Clinton Title and Mortgage Guaranty Company of Newark.

beating the bushes for business just for fun. Now if volume was the only factor involved, fees should be in direct proportion to volume—high fees if volume is large, low fees if volume is small. But, unfortunately, volume is only one factor in this consideration.

Let's give some thought to another factor—construction money. While some of us originate for our own portfolios, most of us originate for resale and have to operate on money borrowed from banks. What do our banks think about the mortgage business today, and about these changing conditions? Do banks like Title VI as well as they liked Title II? Do they like the new non-convertible Title VI as well as the first Title VI? Are they making as much construction money available today as a year ago, six months ago, a week ago? Are they beginning to impose restrictions of their own so that the money they make available is practically worthless anyway? Yes, I think we had better think a little about construction money because if we can't get construction money we needn't worry about fees.

We could think too about the government's housing policy, but we would only be wasting time. These are war times. Anything can happen. A stroke of the pen some morning may put an end to private building. Today the government policy is to encourage private building. Let us hope that policy will continue and plan accordingly.

If we assume that the government's action will be favorable, that there will be plenty of construction money and plenty of business, then we can start talk-

(Continued on next page)

ing about originating fees.

We should start by making sure that we have a clear understanding of our place in the picture. Unless we originate for our own portfolios, we are just middlemen—glorified brokers—or, if it sounds better, mortgage merchants, buying at one price and selling at another. No matter how we dress up our role, we are not principals in the transaction and are not, strictly speaking, essential to the transaction. If the mortgagor and the ultimate mortgagee could get together conveniently, our services would not be needed. But because it isn't convenient for the principals to get together, we come into the picture, but only temporarily. We first handle the transaction with the mortgagor, and then later turn the mortgage over to the mortgagee. We perform a service, a very real and useful service, and are entitled to be paid for that service. The only questions are—how much shall we be paid, which of the parties shall pay us, or shall each bear a portion of the cost?

The Mortgagor's Free Ride

Before FHA it was customary for the mortgagor to pay us. In recent years the mortgagee has been paying our fee or most of it, and the mortgagor has been getting a "free ride" or has been paying very little. We are concerned of course, with who pays us, but actually it makes very little, if any, difference which of the two pays us. We don't control who pays us, nor do we even have a great deal of influence in the determination of who shall pay us.

Don't lose sight of the fact that we're not principals but only middlemen—what we do is determined largely by what the principals want. The only thing and the only thing perhaps we can hold fast to is that our services are worth a fee, and that we must collect that fee if we are to stay in business. We must collect it from the mortgagor or the mortgagee, or part from each of them. What that fee is in dollars and cents will be determined by competition among ourselves.

That's the crux of this whole question of originating fees. I said before that we don't determine who shall pay us and we

don't; but we *do* determine or can determine how much we shall earn and there's no point in blaming the builders or the secondary buyers or anyone else if we don't earn what we think we should. If you will decide now what our fee should be, I'll tell you to the penny how much you should charge the builder. I'll even give you a formula for figuring it out.

Here it is. Settle upon the net profit you would like to make on the transaction, add your disbursements and from that total deduct the premium the secondary market will pay you for the loan. The balance will be what the builder should pay. Now there's a starting point. Who wants to carry the ball from there?

Don't Fail to Attend at Least One

CONFERENCE AND MORTGAGE CLINIC

FIRST SERIES

Denver (Luncheon meeting)	March 23
Salt Lake City (Luncheon meeting)	March 24
Portland (Luncheon meeting)	March 26
Seattle	March 27-28
San Francisco	March 31-April 1
Los Angeles	April 3-4
Dallas	April 10-11
New Orleans	April 13-14

SECOND SERIES

Philadelphia	May 1-2
Atlanta	May 4-5
Nashville	May 8-9
Cleveland	May 11-12

Sullivan W. Jones was one of the principal speakers at MBA's Chicago Conference and Mortgage Clinic along with Raymond T. Cahill, James W. McLain and Claude L. Benner. Mr. Jones is a nationally-known engineer and architect and was formerly architect for New York State. As Chief of the Housing Priorities Branch of the War Production Board, he is in a position to make many of the important wartime decisions affecting mortgage lending. Some of the Washington Letter services have predicted that he may be made director of all defense construction if such a director is named. It would mean supervision over all building for armed services, industrial construction and public and private housing. MBA hopes that at the remaining Clinics it will be privileged to present equally important key figures as Mr. Jones.



SULLIVAN W. JONES

The MORTGAGE BUSINESS in SALT LAKE CITY

*The third of a series of articles on
mortgage banking in American cities*

By NEWELL B. DAYTON

SALT LAKE CITY is located on the deltaic soils laid down by Lake Bonneville on the western face of the Wasatch Mountains in Salt Lake Valley. The site was originally selected because of its geographical location, temperate climate, fertile soil, adequate water shed and stock of timber. The discovery and exploitation of mineral wealth have added to the development of other natural resources with a resultant steady growth of this community. Salt Lake City is located in the 41st degree north latitude, which corresponds with New York, Madrid, Naples and Istanbul, at an elevation of 4,350 feet above sea level.

Since its founding in 1847 by a party of 147 Mormon Pioneers, the city has grown steadily, reaching a population of 50,000 in 1900 and 150,000 according to the 1940 census. During the past few years there has been considerable development in suburban sections just beyond the city limits in a close trading area but not included in the census figures. It is estimated that this brings the population to a total of 210,000 in the metropolitan area, these sections being served by transportation facilities, as well as necessary utilities.

A study based on census figures for the past seven decades shows that a migration of native Utahns to other parts of the country has been less than 14 per cent, which is below the average for the country. The growth from migration to the state has not been large, however, as the state's manufacturing and industrial activity has not grown commensurately with the population. This may be an evidence of the desirability of living conditions with the resultant preponderance in the number of certain types of businesses.

This is rapidly being adjusted by the influx of industries arising through the war effort.

Salt Lake City proper covers 52.9

PHILADELPHIA and Dallas were the subjects of two previous articles in this series. Toledo and Detroit will be covered soon. As we hoped, these articles have met with favorable response from many members who have expressed interest in knowing just what is the over-all mortgage picture in other cities. We note too that the articles have taken on added interest we did not anticipate—that of calling to the attention of others the war projects being undertaken in various cities. Mr. Dayton is vice president of the Tracy Loan & Trust Company, headed by James W. Collins, former president of MBA.

square miles, of which 25.31 square miles are in permanent use. The original planning of the city, with wide streets and ample parking facilities, has been such that growth has been easily accommodated without undue dislocation or movement of business centers. It is a city of beauty, free from influences conducive to contagion, squalor or social demoralization. Twenty-one parks and playgrounds, covering 3230 acres, are incorporated in the city.

The city has 31,669 major structures, of which 29,474 are residential, 1,590 commercial, 249 industrial and 356 public buildings. The residential structures

provide 42,279 dwelling units to house the total population. The character of the people is substantial, as evidenced by the fact that 55.8 per cent of the dwelling units are owner-occupied, 75 per cent of these having been the homes of present occupants for three years or more.

Located in the "Center of Scenic America," Salt Lake City is a delightful spot in which to live, with a mean annual temperature of 54° and surroundings which have made it the Mecca of vacationists. Included in these are scenic beauties, exciting fishing streams and lakes, unparalleled hunting of all kinds and skiing. The city itself has a unique background of historic and dramatic lore and ranks high in cultural standards.

Within a few miles of the city are located many rich mining operations, including the Utah Copper open pit mine, which is now the largest individual source of copper in the United States. Adjoining the city is historic Fort Douglas, which is being rapidly enlarged to accommodate the 9th Corps Area headquarters, moved here from the Presidio in San Francisco. These factors, together with Hill Field, the Remington Arms plant, the United States Steel plant, have resulted in an increase in activity and a problem in housing. Salt Lake City has grown soundly and maintained a balance which we are anxious to project into the future, avoiding the pitfalls arising through too rapid development.

During 1941 the volume of mortgage loan business has, according to the county records, increased 10 per cent, with loans totaling \$16,850,000 recorded during the year. Of this amount it is estimated that 1,600 loans aggregating \$5,850,000 were under FHA and 3,100 loans for \$11,000,000 were of the conventional type. These were made by mortgage loan companies, banks, insurance companies, building and loan associations and individuals on homes, apartments and business properties. There is undoubtedly a certain amount of overlapping in these recorded figures as many of the properties which are eventually mortgaged under FHA were financed during the building period by a temporary conventional loan, both mortgages being placed on record.

In order to analyze the activity of the various types of loaning institutions, the following schedule has been compiled for 1940 and 1941: (See table next page)

	Amount 1940	Amount 1941	Percentage 1940	Percentage 1941
Building and Loans-----	2,795,567	2,963,481	18.415	17.582
Banks -----	3,524,679	3,306,254	23.219	19.617
Insurance Companies ---	1,126,628	2,057,925	7.421	12.211
Loan Companies -----	5,937,523	6,492,772	39.112	38.522
Miscellaneous -----	1,615,603	1,179,568	11.833	12.068
Total -----	15,000,000	16,000,000	100%	100%

The principal buyers of FHA's are insurance companies and banking institutions, a fair amount being held locally in the portfolios of banks and other investors. Home mortgages are purchased by individuals and insurance companies with a considerable volume held by the original mortgagees. Many larger business property loans are also carried locally and some placed with insurance companies. The number of banking institutions, mortgage loan companies, building and loan associations and other financial organizations in this community, as compared with other cities of similar size, is unusually large, with the result that competition for business is keen.

This is particularly true in the mortgage field as commercial banks have been anxious to employ funds which were formerly utilized in commercial loans for which the demand has been less during recent years. In addition to this, the federalized building societies pay no federal income tax and are able to attract large amounts of funds by payment of a higher dividend rate than can legitimately be offered as interest on savings. They are actively in the market. They are permitted to loan a generous proportion of the property value and have shown rapid growth.

The trend of interest rates has been downward for a number of years but has shown little change for some months, having reached a point where any further drop would be economically impossible.

Our Utah Mortgage Bankers Association has been a constructive force and has brought much good to our local mortgage operations. Through cooperative effort, the shopping of borrowers with resultant cutting of rates has been largely eliminated and the conduct of business without the influence of uncertainty has been made possible. The members of our association have been encouraged to study their cost of doing busi-

ness and have thereby realized the necessity of maintaining charges incident to profitable operation. Through knowing each other better and feeling free to discuss any problem, many unfortunate practices have been avoided.

During the past nine years the number of building permits in Salt Lake City has been on the upgrade with 972 for a cost of \$3,883,775 being issued for 1941 within the city limits and an estimated 600 additional in the adjoining suburban areas. The building has been universally of single dwelling structure with a few two-family and larger units and practically no actual apartment house construction. The industrial activity engendered by war activities has encouraged the remodeling of many older structures into dwelling accommodations, this being urged for the public good as well as from the standpoint of individual investment. The figures for property transfers are indicative of the real estate activity, a total of \$7,881,728 having changed hands in 1941, an increase of approximately 18 per cent over the previous year.

Our real estate taxes are not unreasonable, the assessments being based upon 63 per cent of the true value of land and improvements, with exception of business buildings, which are valued at 50 per cent of value. The tax rate to cover city, school, county and state levies was 42.15 mills for the past year, making the actual tax approximately $2\frac{1}{2}$ per cent of the determined value. The ground values were carefully reviewed by the Real Estate Board a short time ago and the improvements were thoroughly analyzed through our State Tax Commission. This has resulted in an equalization of the tax base, although this is a problem which must be constantly before the public officials. The assessed valuation for all property in Salt Lake City reached a high of approximately \$205,000,000 in 1920 and has been

gradually reduced to a present total of \$135,500,000. The collection of taxes in Salt Lake was exceptionally good during the past year. We believe that the following trend has been prevalent in other communities but that our record is rather outstanding:

1934 -----	80.612
1935 -----	83.029
1936 -----	89.149
1937 -----	90.350
1938 -----	92.965
1939 -----	93.837
1940 -----	94.714
1941 -----	98

The present occupancy of homes and apartments is high, with a present vacancy of less than one-half per cent, which is not enough to make way for normal growth or temporary population needs occasioned by the war efforts. The allocations through priority licenses will permit a reasonable amount of new construction to partially fill this need, although we are endeavoring to utilize every temporary means of housing until we are certain of the permanency of many recent developments. It has been noted that the present restrictions on tires and automobiles is resulting in renewed interest in some of the close-in vacant properties which can be built up as investments for rental occupancy.

Our central business district values have fluctuated little but have been affected to a small degree by the development of outlying business centers. These have naturally experienced a better growth than the established downtown district, particularly where super-market operations for distribution of food have been featured.

The present war emergency is resulting in curtailment of new building or extensive improvement in existing structures as materials and labor are uncertain. Even though there is a need for additional residential building in this area, this will probably be confined to lower-cost dwelling units. Salt Lake County has been declared a defense area with priorities for reasonably priced housing. A number of the builders who have been active during the past year are now going forward under Title VI of FHA and seem to be working toward the construction of good smaller homes in proper locations. The various groups who are interested in building have endeavored to work to-

(Continued page 8, column 3)

NOTES ON THE SOLDIERS AND SAILORS RELIEF ACT

and Its Meaning for Mortgage Men

THE other day in a Middle Western city the press published reports that complaints were being made that persons who expect to be called into the armed forces were unable to obtain cancellation clauses in their leases and some were having considerable difficulty in renting apartments.

The city's bar association pointed out that there is nothing in the Soldiers and Sailors Relief Act compelling landlords to insert such clauses. Real estate interests said there was considerable confusion of views on the matter.

It's a tough problem as are so many which the war has created. The Soldiers and Sailors Relief Act has created some important problems. Back in December we reported the suggestion that a change might be made whereby FHA, on being shown the proper supporting evidence, would guarantee the investor the debenture rate without legal proceedings actually being started. In February we reported at length some of the views of other members on the subject.

Since then the principal legislative activity affecting the measure has been the bill introduced by Senator Doxey and which is now in the hands of the Committee on Military Affairs. Under the measure the "benefits of the Act are extended to any obligation incurred by a person on or after the date of enactment of such Act and prior to the commencement of his period of military service if (1) such obligation is secured by a mortgage, trust deed, or other security in the nature of a mortgage upon a dwelling house owned by such person at the commencement of this period of military service and still so owned by him; (2) such house is used by his family or other dependents as a home; and (3) such mortgage, deed, or other security is insured under the National Housing Act, as

amended. Section 2. The terms used in this Act which are defined in the Soldiers and Sailors Civil Relief Act of 1940 shall have the same meaning as that assigned to them in such Act of 1940."

Several interesting discussions of the Soldiers and Sailors Act have appeared in recent months, one by the well-known attorney, Nathan William MacChesney in *Freehold*, and another by Sedgwick A. Clark, of the Title Guarantee & Trust Co. of New York, written from the title company viewpoint.

McCune Gill, vice president, Title Insurance Corporation of St. Louis, and a member of MBA's Board of Governors, has just published a little pamphlet, "The Soldier and the Mortgage," in which he analyzes some of the legal aspects involved. He writes:

Section 302. (50 U.S.C.A. Appendix 532).

1. In those states permitting sale by a trustee under power of sale, sale by a trustee, under a deed of trust originating prior to October 17, 1940

—on property owned by a person in military service

—at the commencement of the service and still owned by him,

2. Shall be invalid if made

—during the period of military service

—or within three months thereafter,

3. Unless upon an order of sale previously granted by the court and a return thereto made and approved by the court.

4. In those states requiring foreclosure by a suit in court, under a mortgage originating prior to October 17, 1940, on property owned by a person in military service,

—at the commencement of the suit and still owned by him

5. The court

—may on his own motion, and

—shall on application by or for the person in military service,

6. Unless in the opinion of the court the ability to pay is not materially affected by the service,

7. Stay the proceedings or

—make such other disposition as may be equitable.

Section 200. (50 U. S. C. A. App. 520)

8. In any action or proceeding in which a person in military service is a party

—if such party does not personally appear

—or is not represented by an authorized attorney,

9. The court may appoint an attorney to represent him,

10. But the attorney shall have no power to

—waive any right of the person

—or bind him by his acts,

11. And a bond may be required to protect the rights of such person in the military service.

12. Vacating a judgment shall not impair the title acquired by any bona fide purchaser for value.

Section 101. (50 U. S. C. A. App. 511.)

13. The term "persons in military service" shall include

—those in training under supervision of the United States preliminary to induction into service, and

—those on active duty, or sick, wounded or on leave.

14. In the Army, Navy, Marine Corps, or Coast Guard

—and officers of the Public Health Service with the Army and Navy

—and no others.

15. Military service terminates upon discharge, or death while in active service.

A foreclosure by trustee is valid if the court (presumably a circuit court) grants an order permitting the sale, and approves a return or report of the sale.

Nothing is said in the Act as to the procedure necessary but presumably it should be on a petition to authorize a sale by the trustee, or a petition for a foreclosure decree.

In addition to the usual service of process, an attorney must appear or be appointed to represent the person in service. The attorney, however, cannot waive any right or enter into any stipula-

tion binding on the person in service. Probably his only powers are to enter appearance and ask the court to protect the person in service or to stay or postpone the sale.

A bond may be required by the Court. Requiring a bond seems to be discretionary with the Court.

The Court probably can eliminate the right of stay or redemption if a bond is filed, or perhaps even without a bond if the Court finds that the equity is of no value. A bona fide purchaser is protected from later action by the Court.

Who It Embraces

The Act does not seem to apply to persons merely subject to draft, but only to those actually in training or inducted into service. It does not seem to include those in the Civilian Defense units. It evidently includes women in active service (or training) such as nurses, etc.

Service terminates (and the three months period commences) at discharge or death while in service.

It will be noted that the Soldiers and Sailors Act does not apply to deeds of trust or mortgages "originating" after October 17, 1940. Hence there should be no hesitancy about making loans at the present time, even though signed by persons in the military service.

Nothing is said in the Act about present renewals of loans made before October 17, 1940; therefore, it is advisable to insist on a new deed of trust rather than to accept an extension or renewal of an old deed of trust or mortgage.

It will also be noted that the Act applies only if the property was owned by the person in service at the commencement of the service (and not to property bought since). The Act applies only if the property is still owned by such person when foreclosure is commenced, (and not if he had previously sold it).

The Act applies only to foreclosures during military service and trustees' sales within three months thereafter, and not to those before military service is commenced (or after the three months period) subsequent to discharge or death, which are not affected no matter what the date of the deed of trust may be.

In an analysis by Wm. J. Boyle of the Land Title Bank and Trust Company,

Philadelphia, given before the Philadelphia MBA Winter Clinic, some of the factors treated by Mr. Gill are discussed; and, in addition, others are amplified.

Mr. Boyle declared:

"The Act is in force until May 15, 1945, or until the termination of the present war by a treaty of peace, and for six months thereafter, and is very similar to the Soldiers and Sailors Civil Relief Act of March 6, 1918.

"Real estate and mortgage interests are importantly affected by the Act. Proceedings under a foreclosure have been materially changed if the obligation originated prior to date of the Act.

"For example, the Act provides that no sale under a power of sale or under a judgment entered upon warrant of attorney to confess judgment contained in any such obligation shall be valid if made during the period of military service or within three months thereafter, unless upon an order of sale previously granted by the Court and a return thereto made and approved by the court.

"This would require the mortgagee, before foreclosure, to obtain an order of sale from the court where the property to be foreclosed is owned by a person now in military service.

"On all foreclosure proceedings, the mortgagee is required to file an affidavit setting forth that the defendant is not in military service, if there is a default of appearance by the defendant. If the mortgagee is unable to file this kind of affidavit, he must file an affidavit setting forth either: that the defendant is in military service, or file an affidavit to the effect that the mortgagee is unable to determine the present status of the defendant.

Court Procedure

"If the defendant is in military service and fails to put in an appearance, it is necessary that the court appoint an attorney to represent the defendant in order to protect his interest.

"The Act provides that in any proceeding in which a person in military service is involved, either as plaintiff or as defendant, during the period of service or within sixty days thereafter, a stay may be ordered either by the court on its own motion or on application by such

person or someone on his behalf, unless the court believes that the ability of such person to prosecute the action or conduct the defense is not materially affected by reason of his military service.

"From this, it is practical to assume that the court, based on evidence of military service alone, will not stay proceedings where it is proved the defendant has other income sufficient to properly maintain his obligation, or where the defendant's interest in a foreclosure may be insignificant.

Recent Cases Cited

"I have been advised that in a recent case the court upheld the plaintiff when, on investigation, it found that the defendant in military service owned a 2/45th interest in a property about to be foreclosed.

"Any stay ordered by the court may be for the period of military service and three months thereafter, or any part of such period, and subject to such terms as may be just, whether as to payment in installments of such amounts and at such times as the Court may fix, or otherwise.

"It is interesting to note that recently a New York court decided after having gone into the financial status of a defendant soldier that as a condition of the stay, ordered the defendant to pay \$26.95 per month on the mortgage on which he had been paying \$44.80.

"Evictions for non-payment of rent also are affected by this Act. If the premises are occupied chiefly for dwelling purposes by the wife or children or other dependents of the person in military service and the rent does not exceed \$80 per month, eviction or distress can be made only on leave of court.

"Upon application for such leave, the court may, on its own motion and shall upon application filed by the defendant, stay a proceeding for not longer than three months, or make such other order as may be just, unless, again in the opinion of court, the ability of the defendant to pay the agreed rent is not materially affected by reason of his military service.

"The Act also covers any taxes or assessments falling due during the period of military service in respect to real property owned and occupied for dwelling, agricultural or business purposes by a

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MBA is not a part of the Home Builders Emergency Committee

MBA members who hold membership in the realtors group were no doubt surprised to read in that organization's weekly *Confidential Letter* of January 19th that MBA had "agreed to support the work of the Home Builders Emergency Committee to the extent of \$5,000." The statement was incorrect. MBA is contributing no financial support and has taken no part in its activities. The impression that we were doing so may have arisen from the fact that several of our members joined with representatives of the National Association of Real Estate Boards in the initial discussions which led to the formation of the committee. There were no pledges nor commitments made which might be construed as giving MBA's sponsorship to the group.

MBA is naturally very sympathetic to the expressed desire to do everything possible to help home building and those who finance it but we feel we can best represent the interests of our members by working as closely as possible with those organizations in Washington which have been set up to serve the industry and which are closely identified with our own. We believe our members will fully endorse this action.

Another view on the FHA's refinancing certificate

Two weeks ago on our editorial page we remarked that one member was wondering about FHA's interpretation of the

refinancing certificate. He had recently lost a number of loans to competing agencies which had presented the certificate with the application and applicants had signed, apparently without realizing what they were doing. One member writes us his view of this matter and another as well. He says:

"We usually have some sort of notice if FHA refinancing is planned for a loan, either a request for a statement or for credit information. We then get in touch immediately with the borrower and find out what his plans are. If the request comes from a mortgage firm, we ask for this information.

"Then we notify the FHA office that no application for a new FHA loan or for modification of the existing loan has been received by us. Notifying FHA has proved effective in a number of instances. We have been stopped in one case where the prospective borrower had told us that the new mortgage was to take up an existing conventional loan.

"Of course, every now and then we slip up. The borrower or the mortgage company (innocently or not) tell us that a conventional loan is being made to refinance our mortgage.

"The second matter mentioned by the member quoted in the February 15th issue is one that is more or less inevitable. FHA, of course, clamps down on everybody in case of a controversy between owner and builder; I do not think that they intentionally single out the mortgage man, though it seems he is the chief sufferer.

"We protect ourselves against careless or unscrupulous builders by holding back a sizeable amount from that share of the proceeds of the loan which is set aside for the contractor's service until we have received a clear final report. The new FHA mortgage form which sets a date by which the owner agrees to have the loan insured gives us a club for use against him if he makes unreasonable demands.

"We have had some difficulty because supplementary FHA inspections after the third inspection list defects that have been overlooked in a previous inspection or have been pointed out by a finicky owner. I do not think this is fair. It has always been my contention that a mortgage man ought to be able to depend on the third inspection report being correct.

Unfortunately I have not been able to convince the FHA that their organization does as good a job as that. However, our local FHA office is very cooperative in these cases and while there are delays and some irritation, matters are adjusted in the end."

A letter from Honolulu dated December 6, 1941

A few weeks ago Secretary George H. Patterson received a letter from H. E. Tuttle, vice president, Bishop Trust Company of Honolulu (dated, incidentally, December 6, 1941) in which he calls attention to the "drop rate" mortgage loan plan which was given some publicity last Fall. Mr. Tuttle said he felt that the advertising possibilities of the plan should interest MBA members.

"Apparently there is a definite need among mortgage companies for something new, particularly with which to offset the attractions of FHA loans," he declared. With that view we cannot agree because we do not recognize any such need right now.

At the time the drop rate plan was being publicized last Fall, it was said that Mr. Tuttle's company was using it. It wasn't and Mr. Tuttle says that as far as he knows it hasn't been used by anyone.

The *American Banker*, commenting on the idea last Fall, said:

"The idea is that the borrower receives a lower interest rate as he reduces the principal of his loan by amortization. While at first glance this seems like just another phase of rate-cutting competition—although it is 100 per cent logical that the borrower should get a lower interest rate as his risk ratio of debt to equity is reduced—the drop-rate idea actually seems to have possibilities of increasing bank income and reducing mortgage money turnover and relending costs."

Mr. Tuttle had been with a large mortgage lending institution on the Pacific Coast, and had made a survey of its amortized loans, in which he had found that the average life of a ten-year loan is 3½ years, because so many were paid off in advance.

We don't pretend to have any definite ideas of the subject and mention it here merely for its discussional value.

(Continued next page)

1942 construction total will include many "row" houses

If you read M. Mark Watkins' article on The Mortgage Business in Philadelphia in the January 15th issue you will recall his description of the "row" house which he said was as characteristic of that city as pepper pot and scrapple. Of 425,000 single-family houses in Philadelphia, 300,000 are "row" houses.

George H. Dovenmuehle, chairman of MBA's FHA committee, says "row" houses are coming and will play an important role in 1942 construction. So far, this type of construction is peculiar to certain Atlantic seaboard cities and only a relatively few at that.

"It appears that many of the residential accommodations to be built in 1942 will be situated at conveniently-located city lots, or in those suburban sections which are served with adequate transportation facilities. One factor in the trend back to urban centers of population will be the war-born restrictions that have been placed on the use of private automobiles," said Dovenmuehle.

"The cost of land that will be suitable for new construction may therefore be higher than the price of the land developed by builders just a year ago. Thus the tracts will probably be smaller. The 'row' house type of construction lends itself to these smaller sites.

"The skilled architect can develop attractive designs for row house developments.

"Such a type of row house has many advantages for urban living accommodations.

"Operating expenses in row houses are necessarily lower per unit than in individual homes. Heating costs, particularly for those houses which are exposed to atmospheric elements on only two sides, are considerably lower than the operating costs of individual houses standing apart from each other."

Too many prepayments seem to be bothering farm lenders

"Our current difficulty in the farm mortgage field is that our best farmers are coming in with extra payments to reduce their loans beyond the terms required in the indenture. Consequently, it is a struggle to maintain our farm mortgage

NOTES ON SOLDIERS AND SAILORS RELIEF ACT

(Continued from page 6)

person in military service or his dependents at the commencement of his period of military service and still so occupied by his dependents. No sale of such property shall be made to enforce the collection of taxes or any proceeding or action for such purposes commenced except upon leave of court.

"The court upon such application may stay the proceeding for a period extending not more than six months after the termination of the period of military service.

"In this regard, it is interesting to note that the unpaid taxes can bear interest at the rate of 6 per cent per annum only and no other penalties are incurred.

"It would appear necessary for a person in military service, or for someone in his behalf, to file with the collector of taxes, an affidavit showing that a tax or assessment has been levied upon his property and that such tax or assessment is unpaid and that by reason of military service the ability of such person to pay such tax or assessment is materially affected. Then no sale of such property shall be made to enforce the collection of

said tax or assessment, nor can any proceeding or action for such purpose commence except upon leave of court granted upon an application therefor by such collector.

"Any person who shall make an affidavit required under this Act, knowing it to be false, shall be guilty of a misdemeanor and shall be punishable by imprisonment not to exceed one year, or pay a fine not to exceed \$1,000, or both.

"In addition to the relief given property owners and tenants in military service, the Act gives protection to those in military service obligated on installment contracts, life insurance premiums, etc.

"Up to the present, the Act has had a comparatively mild effect on property owners and mortgagees; however, since hostilities have begun, requiring a broader demand on the man power of this nation, the Act assumes greater significance requiring more study of its implications than heretofore.

"Every indication points to the fact that the courts will be very liberal in their interpretation of the Act in favor of the defendant in military service."

portfolio without a shrinkage in its total. We have to run our hardest to stay where we are."

So says Sidney Nirdlinger, executive vice president, First Galesburg National Bank and Trust Company, Galesburg, Ill., whose real estate loan department is headed by E. F. Cramer, president of Illinois MBA. Writing in the current *Burroughs Clearing House*, Mr. Nirdlinger adds:

"Although this is anything but desirable from the angle of keeping loaned up, we are actively encouraging our mortgage debtors to use as much spare cash as they can scrape up for principal reductions. A farmer is just like any other human being. If he has money, he is unlikely to hang on to it."

MBA's 1942 Clinic program stirs up much interest

As this issue goes to press, interest in our Chicago Clinic is high. Reservations are coming in fast and in greater volume than we anticipated. It appears that the meeting will be one of the most valuable

for our members we have ever held

We had originally planned to announce in this issue all details of our West Coast Clinics but are deferring doing so until the March 15th issue. This is being done so that any changes in plans as a result of the Chicago meeting can be made before full details are sent to members. But the dates and locations of the Clinics are firm (see page 2) so we advise you to make your hotel reservations now.

SALT LAKE CITY

(Continued from page 4)

gether for the best present and future interests of the community. The quality of housing in Salt Lake City has always been uniformly high and planning has been well-supervised. It is the opinion of our local FHA administration that the probable shortage of labor and materials, coupled with the improvement need for low-cost housing, makes it advisable to concentrate on building in the Title VI class and defer encouragement of larger structures until the war emergency is passed.

